USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 6/4/2013
GAIN Report Number: MX3046

Mexico

Coffee Annual

Effects of Rust on Current Marketing Year Minimal, Greater Impact Expected in MY 2013/14

Approved By:
Dan Berman

Prepared By:
Dulce Flores

Report Highlights:
Mexico is suffering from an outbreak of coffee rust, though the impact is not as drastic as that seen in Central American countries. The Post/New marketing year (MY) 2013/14 coffee production forecast is 3.8 million bags. The MY 2012/13 estimate is revised down to 4.3 million 60/kilogram bags, due to weather and the initial impacts of rust, which are expected to be more severe next year. MY 2012/13 and MY 2013/14 imports are raised due to lower production and a slow but steadily increasing domestic demand. Exports for MY 2013/14 are expected to be lower due to rust-related declines in production.

Commodities:
Coffee, Green

Production:

Coffee production in Mexico, mainly in the states of Chiapas, Veracruz, Oaxaca and Puebla, will be affected by the outbreak of coffee rust (known locally as Roya del cafe). Coffee rust is a fungal disease that can lead to plant defoliation. In moderate cases, leaf defoliation reduces plants' ability to produce fruit (the seeds of which are the actual coffee bean) in the next cycle. In serious cases, plant mortality occurs. The advance of rust through Central America, Honduras, Panama, and Guatemala, began about two years ago before it reached the area of Chiapas in southern Mexico. Producers indicate that production in Mexico could be cut by up to 25 percent for MY 2013/14 if more effective actions are not taken by producers. Plant Health officials' recommendation to coffee growers is to keep checking their plantations and take preventative actions (fertilization, check shade trees, and weed control) to reduce damages to the MY 2013/14 harvest. The Secretariat of Agriculture (SAGARPA), the National Service of Health, Food Safety, and Food Quality (SENASICA), the Integrated Coffee Production Chain (Sistema Producto Café), and the Mexican Coffee Association (AMECAFE) are all working to prevent and control coffee rust in Mexico. (See Phytosanitary Issues Section)

Although there is no official Mexican forecast for coffee production for MY 2013/14, the Post/New forecast (October/September) is 3.8 million 60/kg bags, lower than last year's production due to the expected impact of the coffee rust outbreak affecting plantations in Mexico. However, some producers are confident that coffee rust will not affect production to as great an extent as it is affecting other Central American countries. This forecast is preliminary as weather events could affect planted and harvested areas as well as crop yields during the year.

The Post/New MY 2012/13 total production estimate was revised downward from previous estimates to 4.3 million 60/kg bags, due to weather events and minor impact from f coffee rust. Rust did not severly affect My2012/13 production as most of the coffee for this marketing year had already been harvested. However, as harvest only recently ended in some areas, final official data is not yet available. Climate change, different conditions of humidity and temperature in the region of Soconusco in the State of Chiapas, as well as strong winds and the dispersion of personnel laboring in the harvest, all led to a resurgence in coffee rust aggressiveness in the last six to eight months. The Post/New coffee production estimate for MY 2011/12 was revised down to 4.3 million 60/kg bags, based on producer information.

A number of factors have led to the relatively flat production levels witnessed in Mexico in recent years. Good agricultural practices are still not followed by all producers; several coffee plantations are old and in need of tree renovation; poor fertilization practices; and increasing costs of production. There are efforts from state governments to support coffee production through tree renewal with trees resistant to pests. Other goals of the program include recovery of planted areas and the promotion of support methods for various types of premium price certifications (e.g. organic, fair trade, etc). The state of Veracruz, based on a new local law, is encouraging production, trade, and coffee consumption in the state.

Production techniques and challenges continue to evolve. Some producers have been able to increase plant density from 2,600 plants per hectare to 5,000 or more. Also, some indigenous communities have begun to interplant amongst their coffee trees with other species like limes and avocado to diversify production and provide shade that helps coffee quality and enhances eligibility for value added certifications like Rainforest Alliance and Shade Grown. In recent years, the cost of production has

increased due to a lack of field labor. There is a migrant labor agreement with Guatemala to bring workers to Chiapas for 6 weeks at the peak of the harvest, after which time, the workers return home. Field labor represents more than 80 percent of total productions costs. The Secretariat of Agriculture manages a program entitled Integrated Coffee Productive Chain that includes all the actors in the coffee chain to help develop and support the sector by providing access to technology, training, access to industrialization, and promote trade channels. Around 35 percent of Mexico's coffee production area is top quality high grown coffee, located at an altitude of 900 meters or more above sea level and 43.5 percent grows between 600 and 900 meters above sea level.

In general, Mexico is suited for coffee production due to its geographic location and climatic conditions. Recent reports indicate that about 96 percent of the coffee produced in Mexico is of the Arabica variety while 3 to 4 percent is of the Robusta variety. Although this production ratio has been maintained for some time, SAGARPA is now supporting the planting of 20,000 ha of Robusta coffee to try to substitute imports of this variety that the processing industry is bringing in to produce soluble coffee. There are 1,600 ha in Chiapas and about 2,000 ha in Veracruz that have turned to Robusta for this purpose. Larger amounts of Robusta are needed to support Mexico's goal of becoming a major producer of soluble coffee. The large Nestle plant in the city of Toluca, just outside Mexico City, has been increasing its capacity of soluble coffee production.

Planted and harvested acres in Mexico have been on a slow downward trend for a number of years due to adverse weather such as freezing temperatures and atypical rainfall. These events, some believe, are increasing in frequency due to climate change. Volatile prices have also had an impact. The planted area for MY 2012/13 is estimated at 737,112 hectares, a four percent decline compared to MY 2011/12. Area harvested for MY 2012/13 is also expected to be lower at about 690,900 hectares, compared to 724,803 hectares in MY 2011/12, due to adverse weather and coffee rust problems. The Post/New MY 2013/14 planted area is forecast to decline due to the effects of climate, coffee rust and the current low prices.

Table 1.-Mexico – Coffee Production 2012/13 (Oct/Sept)
Estimates until March 2013
Selected States

STATE	Area Planted (Has)	Production (MT) not processed
Chiapas	258,835	445,980
Veracruz	147,384	348,933
Oaxaca	142,766	127,977
Puebla	72,175	138,882
Others	115,952	122,095
TOTAL	**737,112**	**1,183,867**

Source: SIAP/SAGARPA

Approximately, 98 percent of the Arabica varieties planted in Mexico are Bourbon, Caturra, Catimor, Catuai, Maragogipe, Mundo Novo, Garnica and Typica. Coffee is produced in 15 states where the main producer is the state of Chiapas with 41 percent of production, Veracruz with 28 percent of production,

and Oaxaca with 11 percent of production. Harvesting usually begins in September and ends by the month of March, depending on the area.

Yields continue to differ widely in Mexico due to variations in management and weather. Yields for MY 2013/14 are forecast to be slightly lower compared to MY 2012/13 due to expected coffee rust issues. Yields for MY 2012/13 were 6.9 quintals/ha (317.4 Kg approximately), down about eight percent compared to MY 2011/12, due to weather issues. For yield calculations, one quintal is approximately 46 kilograms. Overall, average yield in Mexico have been roughly 5 quintals/ha (230 Kg approximately). Yields in Chiapas are higher—8 to 10 quintals/ha, however, in some years, yields have reached 12 quintals/ha. Veracruz yields are about 8 to 10 quintals/ha and all other states fluctuate between 5 and 7 quintals/ha.

Phytosanitary Issues

According to SENASICA, coffee rust is a disease of economic importance and was under no official regulation until 2012, but since 2013 has been considered subject to an official program. Officials indicate that coffee rust has not been as harmful as in other countries with resurgent rust problems (Central America) since the implementation of cultural practices such as regulating shade coffee, pruning of plants, weed control, and preventive use of fungicides based on copper, have resulted in a low presence of the pest. However, in September/October 2012, different conditions of humidity and temperature in the region of Soconusco in the State of Chiapas, as well as strong winds and the dispersion of personnel laboring in the harvest, contributed to more aggressive coffee rust behavior. Therefore the Federal government implemented an emergency program. In response to the coffee rust outbreaks, SAGARPA launched in the city of Tuxtla, Chiapas, an emergency inter-institutional program on January 28, 2013, to combat coffee rust disease. The Secretariat of Agriculture instructed SENASICA and AMECAFE to establish strategies to help prevent the spread of coffee rust (See reports MX 3015 and MX 3032 on Coffee Rust in Mexico).

SENASICA, along with AMECAFE and the Integrated Coffee Production Chain, will collaborate to strengthen joint research, training, technical assistance and dissemination of information to all sectors involved in the coffee production chain at the federal, state and municipal levels. This program is being implemented for the control of coffee rust in the states of Chiapas, Oaxaca, Puebla, and Veracruz.

The March and April 2013 reports from SENASICA indicate that the confirmed detections of coffee rust are mostly in plantations above 600 meters above sea level (MAMSL), with some detection at lower levels. Coffee plantations in Chiapas are found predominantly at altitudes of 644 to 1,207 MAMSL or more and in the State of Veracruz, plantations are found at altitudes of 150 to1,207 MAMSL. In the states of Puebla and Veracruz average damaged leaf severity was greater than in Chiapas, however, in the latter, there were higher levels of defoliation whose final average was 37% compared to other states like Puebla and Veracruz and Oaxaca, which had values of defoliation of 16 to 23%. In the other states the average leaf damage was between 8 and 15% defoliation. The government is extending the control strategy that began in Chiapas in late 2012 with monitoring activities, prevention, training, development, and adaptation of tools and methods to help grower decision making for fungicide application.

Currently, producers in the state of Chiapas are urgently requesting the Local and Federal government to issue a phytosanitary alert to be able to access Federal resources, the Development Bank and even the possibility of accessing international funds. The growers indicate that about half of the 250,000 hectares planted with coffee shows signs of rust, and not the 45,000 hectares that SENASICA is declaring. Coffee producers indicated that the coffee crop is seriously damaged and that they would need about 135 million pesos (USD $10.9 million) to survive the disease.

For more information on coffee rust in Central America and southern Mexico, see this report from the International Coffee Organization (ICO): Report on the outbreak of coffee leaf rust in Central America and Action Plan.

Consumption:

Domestic coffee use (both roasted and soluble coffee) for MY 2013/14 is forecast at 2.1 million 60kg/bags, same as in the revised estimate of MY 2012/13, assuming domestic prices continue to be affordable. Per capita consumption of coffee in Mexico has been slowly increasing from about 1.2 kg to about 1.4 kg due to more cafeteria shops that have opened in Mexico. Consumption of ground coffee has increased and now is the largest share of domestic use; however soluble coffee is still very important. Post/New MY 2011/12 and MY 2012/13 use of coffee estimates were revised upward as ground coffee consumption has been slowly increasing.

According to AMECAFE, about 40 percent of domestic coffee production is marketed for local consumption and the remaining 60 percent is for export purposes. Official sources confirm that Mexico lacks a reliable consumption monitoring system.

Trade:

There is a Sectorial Promotion Program managed by the Secretariat of Economy (PROSEC) to increase competitiveness for certain sectors that allows the importing of a product at a preferential tariff as long as the product is transformed into a different product. Whether importers are producing goods for export or domestic market, the Program also seeks to promote the integration of efficient supply chains. In the case of coffee the products under the following HTS numbers are included: 0901.12, 0901.21, 0901.22, and 2101.11.01. Coffee imported under this program is classified under HTS number 98 – "Import of goods via special operations". However, all types of coffee (beans, roasted and soluble) are classified together, making it impossible to differentiate how much of each was imported. According to sources, about 800,000 60/Kg bags of coffee were imported for MY 2011/12 and about 1 million 60/Kg bags were imported for MY 2012/13. Therefore, import data was adjusted accordingly. The breakdown in types of imported coffee found in table 2 represent Post's best estimate.

Increasing imports of coffee in general is attributed to increased demand by middle-income consumers who are reportedly searching for different options from domestic soluble brands as well as by high-income consumers who are in search of fashionable value-added imported coffee. Imports of roasted coffee are increasing as consumers now have more options for freshly-made coffee via the increasing number of specialty coffee shops in the country. Mexico is importing large quantities of coffee beans—mainly Robusta variety—as the Nestle plant in the city of Toluca in the State of Mexico, has increased its soluble coffee production capacity.

Post/New MY 2013/14 forecast for total imported coffee is 1.5 million 60/kg bags or an increase of 10 percent over MY 2012/13. The larger volume of imported coffee is a result of lower production due to rust and stable demand. Imported coffee for MY 2011/12 and MY 2012/13 was revised upward to 1.1 and 1.3 million 60/kg bags respectively to meet demand and is based on the above referenced new information from PROSEC.

Roasted ground coffee imports are expected to gradually increase. To further help stimulate demand, on March 14, 2011, the Secretariat of Economy (SE) announced a duty-free import of roasted ground coffee classified under Harmonized Tariff System codes (HTS) 0901.21.01, 0901.22.01 and 0901.90.99, packaged in 40-gram containers. These products may be imported duty-free until December 31, 2014. The Government of Mexico stated that the purpose of these cupos (duty-free import permits) is to encourage the domestic coffee industry to diversify its coffee products offerings in the market, enable the sector to access new market niches, and to promote the consumption of coffee in Mexican households. The above linked announcement establishes the necessary requirements for the duty-free import of roasted and ground coffee in 40-gram containers. Undoubtedly, prices will play a key role in the volume to be imported.

Although there is no official Mexican forecast for coffee exports for MY 2013/14, the Post/New forecast is 3.1 million 60/Kg bags; however exports will be heavily influenced by low international prices, and lower domestic production volumes affected by the coffee rust. Also, coffee exporters are facing an appreciating Mexican Peso, making exports more expensive than imports. The United States continues to be the main international market for Mexican green coffee. The MY 2012/13 export estimate is 3.6 million 60/Kg bags as this year was considered a good year despite the rust issues and low international prices. The MY 2011/12 export estimate was revised upward to 3.3 million 60/Kg bags based on trade data.

In recent years, the majority of Mexican-grown coffee has been directed to the export market. The focus on exports has been fueled by an assumption of higher international prices and relatively flat domestic demand. However, the Mexican coffee industry is working to increase domestic consumption, and has established a 10-year goal of selling 70 percent of Mexico's coffee domestically while exporting only 30 percent.

Stocks:

The Post/New MY 2013/14 ending stocks forecast is slightly higher compared to MY 2012/13 revised estimate. Ending stock estimates for MY 2012/13 were revised downward due to lower production estimates. MY 2011/12 stocks were revised slightly downward based on available data. AMECAFE reports that Mexico has never had a reliable system to record ending stocks, and, as such, data are largely anecdotal. Current stock estimates reflect information obtained from industry sources, as no official government statistics are available.

Marketing:

In order to offset low per capita consumption levels and to counter the belief that there are negative health effects associated with consuming coffee, the Mexican coffee industry is promoting the health

benefits of high-quality Mexican blends. Consumers with relatively greater purchasing power have been targeted by the specialty coffee sector for years. Soluble coffee consumption, however, is based on disposable income constraints.

A large U.S.-headquartered retail store specializing in coffee sales reported that it opened more than 300 stores in Mexico. They have also begun offering Mexican sub-origin labeled coffee such as "Chiapas." These coffees are often bought by intermediaries who purchase directly from private farmers or cooperatives. The rapid growth in coffee shops has attracted foreign and domestic investment, especially since the consumption of coffee in fast-food chains has developed into a new market as well. As a result of successful negotiations with powerful retailers, many small local brands are reaching supermarket and hypermarket shelves. Some of the companies behind this gradual change in distribution are specialty coffee shops.

Opportunities for Coffee Producers

AMECAFE and the coffee sector are receiving support from SAGARPA to hold the second edition of the Cup of Excellence Competition in Mexico, scheduled for May of this year. The competition aims to promote the marketing of Mexican coffee in international markets. Rodolfo Trampe, executive coordinator of AMECAFE indicated that the previous edition yielded good results, helping growers to market their product, and noted that the Cup winner received a record price of $50 dollars per pound of coffee, where the normal price fluctuates at $1.50 dollars a pound. This competition has been positive for Mexican producers, as the world is starting to see Mexico as a potential producer of specialty coffees.

In addition, the 2nd Latin American Coffee Conference will be held in Puebla, Mexico from August 1 to 3, 2013, and anticipates attendance of more than 10,000 representatives (producers and processors) of Latin American countries. According to Luz Maria Osuna Delgado, Director General of the Conference, the goal is to create a forum for representatives of all stages in the coffee production chain, with leaders and experts from the invited countries providing Mexican producers with another place to showcase their product and do business.

Production, Supply and Demand Data Statistics:

Table 2. Mexico - Coffee Production, Supply and Demand

Coffee, Green Mexico	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	0	0	0	0		0
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total Tree Population	0	0	0	0		0
Beginning Stocks	89	89	104	102		13
Arabica Production	4,800	4,100	4,500	4,100		3,600
Robusta Production	200	200	200	200		200
Other Production	0	0	0	0		0
Total Production	5,000	4,300	4,700	4,300		3,800
Bean Imports	75	288	100	345		380
Roast & Ground Imports	20	188	20	223		260
Soluble Imports	185	630	150	748		860
Total Imports	280	1,106	270	1,316		1,500
Total Supply	5,369	5,495	5,074	5,718		5,313
Bean Exports	2,525	2,527	2,200	2,700		2,400
Rst-Grnd Exp.	0	53	0	55		53
Soluble Exports	790	753	800	850		737
Total Exports	3,315	3,333	3,000	3,605		3,190
Rst,Ground Dom. Consum	975	1,085	1,025	1,175		1,175
Soluble Dom. Cons.	975	975	925	925		925
Domestic Use	1,950	2,060	1,950	2,100		2,100
Ending Stocks	104	102	124	13		23
Total Distribution	5,369	5,495	5,074	5,718		5,313
1000 HA, MILLION TREES, 1000 60 KG BAGS						

Table 3. Mexico: Green Coffee Imports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)

Origin	MY 2010/11	Origin	MY 2011/12
U.S.	4,701	U.S.	714
Vietnam	4,857	Vietnam	1,435
Brazil	4,253	Brazil	691
Other not listed	799	Other not listed	1,498
Grand Total	**14,610**	**Grand Total**	**4,338**

Table 4. Mexico: Green Coffee Exports in Metric Tons (MY Oct/Sep) (HTS: 090111 and 090112)			
Destination	**MY 2010/11**	**Destination**	**MY 2011/12**
U.S.	58,353	U.S.	101,773
Belgium	6,969	Belgium	15,421
Japan	3,270	Japan	1,836
Germany	3,260	Germany	8,644
Other not listed	32,271	Other not listed	23,942
Grand Total	**104,123**	**Grand Total**	**151,616**

Table 5. Mexico: Roasted Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Origin	**MY 2010/11**	**Origin**	**MY 2011/12**
U.S.	1,311	U.S.	1,555
United Kingdom	356	United Kingdom	414
Other not listed	534	Other not listed	597
Grand Total	**2,201**	**Grand Total**	**2,566**

Table 6. Mexico: Roasted Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 090121 and 090122) (MY Oct/Sep)			
Destination	**MY 2010/11**	**Destination**	**MY 2011/12**
U.S.	6,079	U.S.	1,681
Other not listed	45	Other not listed	1,501
Grand Total	**6,124**	**Grand Total**	**3,182**

Table 7. Mexico: Soluble Coffee Imports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Origin	**MY 2010/11**	**Origin**	**MY 2011/12**
U.S.	5,333	U.S.	7,254
Colombia	1,425	Colombia	790
Other not listed	1,388	Other not listed	1,885
Grand Total	**8,146**	**Grand Total**	**9,929**

Table 8. Mexico: Soluble Coffee Exports in Metric Tons on a Green Bean Equivalent Basis (HTS: 21011101, and 210112) (MY Oct/Sep)			
Destination	**MY 2010/11**	**Destination**	**MY 2011/12**
U.S.	29,370	U.S.	31,668
Other not listed	9,971	Other not listed	13,522
Grand Total	**39,341**	**Grand Total**	**45,190**

SOURCE: Global Trade Atlas Edition, January 2013

Table 9. Mexico: Monthly Exchange Rate Averages for 2010-2013

MX Pesos per U.S. $1.00

	2010	2011	2012	2013
January	12.80	12.13	13.46	12.71
February	12.95	12.06	12.79	12.69
March	12.59	12.00	12.75	12.54
April	12.23	11.73	13.05	12.21
May	12.71	11.64	13.60	12.15*
June	12.72	11.80	13.94	
July	12.65	11.67	13.37	
August	13.15	12.22	13.18	
September	12.84	12.97	12.95	
October	12.44	13.49	12.88	
November	12.33	13.67	13.08	
December	12.39	13.73	12.86	
Annual Avg	**12.65**	**12.42**	**13.15**	

*As of May 8, 2013

Source: Mexican Federal Register

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work http://www.youtube.com/user/ATOMexicoCity

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX 3032	Coffee Rust Update	04/05/2013
MX 3015	Situation Update--Coffee Rust in Mexico	02/27/2013
MX2029	Coffee Annual Report	05/14/2012
MX 1039	Coffee Annual Report	09/10/2011
MX1027	Coffee in 40 Gram Containers Allowed Duty Free	03/28/2011

Useful Mexican Web Sites: Mexico's equivalent of the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, the equivalent of the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx, and the equivalent of the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the reader's convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.